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Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 EB-08 XMB-02 OMB-01 CIAE-00
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FM AMEMBASSY LISBON
TO SECSTATE WASHDC 5252
INFO AMCONSUL OPORTO
AMCONSUL PONTA DELGADA

C O N F I D E N T I A L LISBON 2343

E.O. 11652: GDS
TAGS: ECON, EFIN, PO
SUBJECT: SOARES' VIEWS ON IMF NEGOTIATIONS

SUMMARY: SOARES TOLD ME MARCH 28 HE REMAINED COMMITTED TO TAKING THE MEASURES NEEDED TO MEET THE $800 MILLION TARGET DISCUSSED WITH THE IMF. SOARES WAS CONCERNED, HOWEVER, THAT THE IMF PROGRAM COULD PRODUCE SERIOUS SOCIAL UNREST. THE EMBASSY WILL CONTINUE TO USE ITS INFLUENCE WITH THE GOP TO GET IT TO GO AS FAR AS POSSIBLE TOWARDS THE FUND'S PREFERRED TARGETS. END SUMMARY.

1. PRIME MINISTER SOARES INVITED ME TO A TETE-A-TETE LUNCH ON MARCH 28, A FEW DAYS AFTER HIS RETURN FROM LATIN AMERICA (SEPTEL). SOARES TOLD ME THAT HE WANTED TO GIVE ME HIS IMPRESSIONS OF HIS LATIN AMERICAN TRIP (WHICH I HAD SAID IN OUR INITIAL MEETING I HOPED HE WOULD SHARE WITH ME UPON HIS RETURN) AS WELL AS TO COMMENT ON THE FORTHCOMING IMF NEGOTIATIONS.

2. REGARDING THE LATTER, SOARES REFERRED TO THE WEEKEND EDITORIAL IN THE "NEW YORK TIMES" WHICH HE SAID WAS "USEFUL" FROM THE PORTUGUESE POINT OF VIEW. THEN, APPARENTLY TO BE SURE THAT I, AS A NEWCOMER TO PORTUGAL, WOULD UNDERSTAND THE POLITICAL CONTEST, HE DWELT AT SOME LENGTH ON THE IMPORTANCE OF THE PORTUGUESE DEMOCRATIC EXPERIMENT FOR U.S. INTERESTS. HE INSISTED THAT THE
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BEHAVIOR OF THE COMMUNIST PARTY IN PORTUGAL DURING THE CHAOTIC DAYS OF 74 AND 75 WHEN THE PCP ATTEMPTED TO SEIZE POWER HERE, HAD HAD AN IMPORTANT EFFECT ON THE OUTCOME OF THE FRENCH ELECTIONS. SOARES'S THESIS IS THAT THE EXAMPLE OF THE COMMUNISTS IN PORTUGAL HAD HELPED THE CENTER-RIGHT IN FRANCE. HE CLAIMED THAT THE PORTUGUESE EXPERICENCE HAD ALSO HAD A MODERATING EFFECT IN SPAIN, AS FAR AS THE PSOE IS CONCERNED.

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3. TURNING TO THE IMF, SOARES SAID THAT HE AND HIS GOVERNMENT WERE COMMITTED TO TAKING SEVERE AUSTERITY MEASURES IN ORDER TO MEET THE BALANCE-OF-PAYMENTS TARGET OF $800 MILLION THAT HE BEEN DISCUSSED WITH THE IMF. HOWEVER, HE FELT THAT THE IMF, IN ITS PURSUIT OF ECONOMIC ORTHODOXY, WAS ATTEMPTING TO PUSH THE PORT-UGUESE INTO SUCH A TOUGH STABILIZATION PROGRAM AS TO PRODUCE A WAVE OF BUSINESS COLLAPSES, FURTHER UNEMPLOYMENT, AND SERIOUS SOCIAL UNREST. SOARES SPECIFICALLY CITED THE FUND'S POSITION ON INTEREST RATES AS POLITICALLY UNREALISTIC. THE PUNCH LINE WAS THAT, SHOULD THE FUND PROVE INTRANSIGENT, HE MIGHT BE FORCED TO SEND FOREIGN MINISTER CONSTANCIO TO WASHINGTON, OR GO HIMSELF, IN ORDER TO ENLIST USG SUPPORT VIS-A-VIS THE IMF.

4. I TOLD HIM THAT MY IMPRESSION WAS THAT IMF ONLY WISHED TO ASSURE THAT THE STABILIZATION PROGRAM THAT WAS FINALLY AGREED TO WOULD BE AN EFFECTIVE ONE, AND THAT THE IMF NEGOTIATORS WERE QUITE COGNIZANT OF THE POLITICAL CONTEXT IN WHICH THEY WERE OPERATING. I DID NOT RESPOND DIRECTLY TO HIS SUGGESTION OF A POSSIBLE TRIP TO WASHINGTON, WHICH I AM SURE HE TOOK AS A NEGATIVE REACTION ON MY PART.

5. SOARES NO DOUBT DREW COMFORT FROM THE REMARKS OF SENATOR RIBICOFF DURING THE MEETING WHICH HE HAD WITH THE U.S. DELE-GATION TO THE INTERPARLIAMENTARY UNION MEETING THE DAY AFTER OUR CONFIDENTIAL

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LUNCH. IN HIS OPENING REMARKS TO THE CONGRESSMEN, SOARES REFERRED TO PORTUGAL'S DIFFICULT ECONOMIC SITUATION, TO THE FORTHCOMING FUND NEGOTIATIONS, AND TO HIS OWN CONCERN THAT THE GOVERNMENT'S STABILIZATION PROGRAM NOT PRODUCE AN UNMANAGEABLE POLITICAL REACTION. SENATOR RIBICOFF EMPHATICALLY AGREED WITH THE LATTER POINT AND SAID THAT IT WAS HIS VIEW THAT
THE IMF FREQUENTLY PURSUED ECONOMIC PERFECTION TO THE DETRIMENT OF THE BROADER OBJECTIVE OF POLITICAL STABILITY. RIBICOFF CITED THE EXAMPLE OF THE IMF'S INSISTENCE LAST YEAR THAT EGYPT DO AWAY WITH THE SUBSIDY ON BREAD AS ONE OF THE CONDITIONS FOR A STANDBY AGREEMENT. SOARES, AS WAS TO BE EXPECTED, PICKED UP ON RIBICOFF'S COMMENTS AND SAID THAT HE HIMSELF HAD USED THE EGYPTIAN EXAMPLE IN PREVIOUS DISCUSSIONS WITH THE IMF TEAM.

6. COMMENT: THE IMPORT OF ALL THIS IS THAT THE GOP HAS BEEN ENCOURAGED BY THE "NEW YORK TIMES" EDITORIAL AND BY RIBICOFF TO TAKE A TOUGHER POSITION IN ITS BARGAINING WITH THE IMF. PERSONALLY I BELIEVE THAT NEITHER OF THE TWO MAIN ISSUES OUTSTANDING BETWEEN THE IMF AND THE GOP--NAMELY THE INTEREST RATE QUESTION AND THE MANNER IN WHICH THE DE-VALUATION TARGET IS TO BE REACHED--IS OF PARAMOUNT IMPORT-ANCE. THE GOP HAS ALREADY AGREED TO INCREASE INTEREST RATES BY

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SEVERAL POINTS, ALBEIT NOT AS MUCH AS WE OR THE IMF THINK IS ECONOMICALLY DESIRABLE. ALSO, THE GOP AND THE IMF HAVE AGREED UPON A DEVALUATION TARGET FOR THE YEAR AND ARE NOW ARGUING ABOUT WHETHER IT SHOULD BE DONE IN ONE BIG BITE FOLLOWED BY SMALLER STEPS OR IN A FAST CRAWLING PEG FOLLOWED BY A SLOWER DE-PRECIATION.

7. IT SEEMS TO ME THAT MORE IMPORTANT THAN EITHER OF THESE TWO ISSUES IS THAT THE GOP SIGN A STANDBY AGREEMENT QUICKLY WITH THE IMF IN ORDER THAT CONFIDENCE IN PORTUGAL'S ECONOMIC FUTURE MAY BE STRENGTHENED AND EXPECTATIONS OF BOTH DMOESTIC AND FOREIGN ECONOMIC ACTORS REGARDING LIKELY TRENDS BE REVERSED. AT THE SAME TIME, THE DEPARTMENT MAY BE ASSURED THAT THE EMBASSY WILL CONTINUE TO USE ITS INFLUENCE WITH THE GOP TO
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GET IT TO GO AS FAR AS POSSIBLE TOWARDS THE FUND'S PREFERRED TARGETS.
BLOOMFIELD

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